

EXHIBIT 2

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Alexandria Division)**

Case No. 1:15CV1659-TSE/JFA

LEN STOLER, INC. d/b/a LEN STOLER AUDI
Plaintiff

vs.

**VOLKSWAGEN GROUP OF AMERICA, INC.
d/b/a AUDI OF AMERICA INC.**
Defendant

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URBAN SCIENCE™

Expert Report of
Jay R. Lytle

August 2016

1. I am employed as an Analytical Services Manager at Urban Science Applications, Inc. (“Urban Science”), a consulting and software-development company headquartered in Detroit, Michigan.

2. I was asked by Barack Ferrazzano Kirschbaum & Nagelberg LLP (“BFKN”), on behalf of its client Volkswagen Group of America, Inc. d/b/a Audi of America (“Audi”): (1) to evaluate the various claims and allegations Len Stoler, Inc. d/b/a Len Stoler Audi (“Len Stoler”) makes in the Complaint; (2) to evaluate and comment on the expert report of Joseph F. Roesner, dated July 2016, (the “Roesner Report”); (3) to provide a report of my opinions and the bases thereof; and (4) if called upon, to testify to my analysis and opinions.

3. Len Stoler’s claim generally appears to be 1) that it did not receive additional bonus payments that it would have otherwise received had it qualified for the highest level of Audi’s bonus programs and 2) because it did not receive the highest bonus payments from Audi it was at a price disadvantage, 3) because of the price disadvantage, it needed to sell its vehicles at generally higher prices than other Audi dealerships, 4) its higher prices caused it to lose new vehicle sales to surrounding Audi dealerships, and 5) the loss of these new vehicle sales further caused it to lose used vehicle, service, and parts sales.

4. This report sets forth my opinions, underlying bases, methodology, information considered, and qualifications regarding this assignment. Throughout this report, page numbers with the prefix “A-” or “APP-” refer to the attached charts, maps, and tabulations that are part of my report and its appendix.

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QUALIFICATIONS

5. Urban Science is an international consulting and software development company that primarily provides services to the automotive industry. Urban Science provides services in the areas of dealer network analysis, dealer performance, and lead management. Dealer network analysis consists of determining the proper number and location of outlets necessary to adequately serve a market and evaluating the performance of the existing dealers in the network, both individually and collectively. Urban Science provides these services for nearly every automotive manufacturer globally. Dealer performance includes the analysis of dealership operations and dealership financial performance, or business management. Urban Science is the largest provider of business management solutions in the world; collecting, analyzing, and reporting on the financial performance of over 22,000 dealers globally representing more than 30 manufacturers. Lead management is the analysis of customer leads to improve sales. These services are provided to Urban Science clients in the ordinary course of business to assist with the management of their operations.

6. Urban Science maintains offices around the world, including Detroit, Atlanta, Long Beach, Nashville, New York, Washington DC, Beijing, Delhi, Frankfurt, London, Madrid, Melbourne, Mexico City, Moscow, Munich, Paris, Rome, Shanghai, Tokyo, and Sao Paulo. Litigation accounts for approximately 3-5% of Urban Science's business.

7. I have worked at Urban Science for more than 13 years, during which time I have primarily been involved with the analysis of dealership networks, dealership operations, and dealership financial performance, and vehicle distribution systems. I have performed hundreds of analyses related to these topics, primarily in the United States and Canada.

8. My work has been performed to improve management and business performance, determine liability in adversary proceedings, and quantify alleged damages. I have personally been involved in providing services for many automotive manufacturers, including work for Audi, BMW, Fiat Chrysler Automobiles, Ferrari, Ford, General Motors, Honda, Hyundai, Infiniti, Jaguar, Kia, Land Rover, Lexus, Maserati, Mazda, McLaren, Mercedes-Benz, Mini, Mitsubishi, Nissan, Rolls-Royce, Subaru, Suzuki, Tesla, Toyota, Volvo, and Volkswagen. I have also been involved in providing services for other vehicle and equipment manufacturers, including work for BMW Motorcycles, Caterpillar, Daimler Trucks (Freightliner and Western Star), Ducati, John Deere (Hitachi Construction Equipment), Navistar (International), Paccar (Kenworth and Peterbilt), Triumph Motorcycles, and Volvo Trucks (Mack and Volvo Trucks).

9. With respect to my personal qualifications, I received a Bachelor's Degree in Mechanical Engineering from the University of Michigan and a Master's Degree in Business Administration with High Distinction from the Stephen M. Ross School of Business at the University of Michigan. During my career with Urban Science, I have held various roles including Associate, Senior Consultant, Practice Manager, and Senior Manager.

10. I have been qualified as an expert witness regarding dealer network analysis, dealership financial analysis, and dealership operational performance. I have lectured to a Quantitative Analysis class at Michigan State University. A copy of my resume and a list of prior testimony are submitted herewith. Urban Science is being compensated at the rate of \$325 per hour plus expenses for my services in this case. This compensation is guaranteed and is contingent neither upon the outcome of the underlying case nor upon the opinions I have offered or will offer regarding the issues in dispute.

STATEMENTS AND BASES OF OPINIONS

Opinion 1: Len Stoler was not unique in not receiving the Exclusive level Standards Bonuses

11. In 2015, Len Stoler was one of seven Audi dealerships in Maryland. The map on page A-1 shows the Maryland Audi dealerships. Each Audi dealership location is identified and labeled with a portion of its dealer code shown in the yellow box which can be referenced in the legend. Len Stoler is identified by the red box northwest of Baltimore, labeled “A08.”

12. In addition to showing the dealer locations, this map also displays the geography assigned to each of the Audi dealerships, or their Primary Areas of Influence (“PAI”). The small, unusually shaped polygons outlined in black are 2010 U.S. census tracts. The shading of these census tracts represents the geography assigned to each of the dealers. Audi uses these PAI assignments for a variety of purposes, including measuring sales performance and routing customer leads to dealerships. These PAIs do not restrict dealerships – they can make sales anywhere, including in their own PAI, PAIs assigned to other dealerships, and unassigned areas. Prior to 2015, Audi dealerships were assigned PAIs based upon ZIP codes.

13. Len Stoler’s claim appears to generally relate to the Standards Bonus, which was part of Audi’s Margin and Bonus Program from 2008 through 2015, and the Business Fundamentals Bonus, which was part of Audi’s Performance Bonus Program starting in 2016, (the “Standards Bonuses”).

14. It is my understanding that the Standards Bonuses reward dealerships that meet certain criteria under Audi’s Dealer Operating Standards, which generally require investment in facilities, people, and equipment. The Standards Bonuses are available to all dealers based upon the level at which each dealership qualifies:

Tier	2008-2010¹	2011-2015²	2016³
Exclusive	4.00%	3.75%	3.00%
Brand Dedicated	2.50%	2.35%	1.60%
Universal	1.00%	1.00%	0.25%
General	0.00%	0.00%	0.00%

15. Through 2015, Audi provided Len Stoler Standards Bonuses at the Brand Dedicated level, or 2.35% of the MSRP of vehicles sold by Len Stoler. It is my understanding that Len Stoler met certain criteria under Audi's Dealer Operating Standards for a certain period of time and Audi continued to provide it with payments through 2015 while Len Stoler developed plans for an exclusive dealership facility.

16. The Standards Bonuses provided by Audi help dealerships meet the requirements of the Audi's Dealer Operating Standards. Audi's Dealer Operating Standards are intended to provide customers with an improved and more consistent shopping experience. Each Audi dealer makes its own independent determination whether to invest in their dealerships and meet certain criteria under Audi's Dealer Operating Standards.

17. Not all dealerships are provided with highest level of Standards Bonuses, the Exclusive level Standards Bonuses. Dealerships must meet certain criteria under Audi's Dealer Operating Standards to receive the Standards Bonuses. Page A-2 shows that when Audi implemented its Standards Bonuses in 2008, only two of the six Maryland Audi dealerships qualified for the Exclusive level Standards Bonuses. In order to earn the Exclusive level Standards

¹ AOA0083819.

² AOA0000445 and AOA0000241.

³ AOA0000274.

Bonuses, the other Audi dealers in Maryland spent millions of dollars upgrading their facilities and reorganizing their businesses to meet certain criteria under Audi's Dealer Operating Standards.

18. Had Len Stoler met certain criteria under Audi's Dealer Operating Standards and had completed an exclusive facility, it too could have earned the Exclusive level Standards Bonuses. Len Stoler decided not to make the necessary investment in its dealership and forgo the Exclusive level Standards Bonuses.

Opinion 2: The Roesner Report fails to consider the costs associated with qualifying for Exclusive Standards Bonuses.

19. While the Roesner Report has calculated the "additional Standards Bonus payments Stoler did not receive,"⁴ it has not calculated or considered the cost associated with earning these Standards Bonuses. This analysis is incomplete and ignores the investment required, and made by other Audi dealerships, to earn these Standards Bonuses.

20. Page A-3 shows the Roesner Report's calculation of the difference between the amount of Standards Bonuses Len Stoler received and the Standards Bonuses it would have received at the Exclusive level.⁵ These differences are approximately \$750 per new vehicle when Len Stoler qualified as a Brand Dedicated dealership and approximately \$1,650 per new vehicle when Len Stoler qualified as a General dealership.

21. As previously stated, Audi's Dealer Operating Standards generally require investment in facilities, people, and equipment. Pages A-4 through A-6 show the increase in annual dealership fixed costs associated with the facility investments made by the two Maryland

⁴ Roesner Report, paragraph 11.

⁵ Roesner Report, Tab 5 Page 1.

dealerships that completed their facility upgrades as of 2015. Page A-7 shows that when compared to new vehicle sales, these investments equate to approximately \$800 - \$1,100 per vehicle.

22. In addition to upgraded facilities, it is my understanding that Audi's Dealer Operating Standards would require Len Stoler to hire a dedicated General Manager for Audi in order to qualify at the Exclusive level. The National Automobile Dealers Association ("NADA") published average General Manager compensation between \$120,751 and \$281,526 between 2009 and 2015.⁶ This investment in a dedicated Audi General Manager would represent additional costs of approximately \$350 to \$1,250 as shown on page A-8.

23. Had the Roesner Report considered just some of the costs associated with meeting Audi's Dealer Operating Standards at the Exclusive level, it would have found that Audi dealers that received lower amounts of the Standards Bonuses did not have a "lower effective price,"⁷ to use the Roesner Report terminology. Page A-9 shows the net effect of the Standards Bonuses, which is consistent with my understanding of the intent of the programs – to help offset these investments made by dealers.

24. Len Stoler had substantial financial resources available but chose not to invest in its Audi dealership. Page A-10 shows that Len Stoler reported its Audi dealership and some of its other dealerships collectively earned between \$3.6 and \$8.6 million annually,⁸ with combined 2010 to 2015 earnings of more than \$37 million.⁹ It reported its owners' equity, or net worth, as of December 2015 was in excess of \$36 million.¹⁰

⁶ NADA 2009 Compensation Study and 2015 Dealership Workforce Study.

⁷ Roesner Report, paragraph 23.

⁸ Net Profit Before Taxes.

⁹ Dealer Financial Statements; \$37,057,499 = \$6,727,243 + \$8,553,219 + \$7,223,096 + \$6,245,513 + \$3,654,294 + \$4,654,134.

¹⁰ Dealer Financial Statements; December 2015 Owners' Equity = 36,347,797.

Opinion 3: The Roesner Report fails to consider the impact Audi's Dealer Operating Standards have on dealerships' sales.

25. The Roesner Report appears to suggest that the lower Standards Bonuses provided to Len Stoler independently caused Len Stoler to lose sales. The Roesner Report opines that “[t]he differential bonus payments impacted Stoler’s new retail Audi sales.”¹¹ The Roesner Report does not appear to analyze the impact price alone has on new vehicle sales (it does not even purport to calculate the number of lost sales) and fails to consider that dealerships which met certain criteria under Audi’s Dealer Operating Standards were more attractive to consumers.

26. Notably, the Roesner Report states that “[d]ealerships qualifying for the full incentive amount would, all other things being equal, effectively have lower prices than Stoler on comparable vehicles.”¹² “All other things” were not equal; the dealerships that received Exclusive level Standards Bonuses made significant investments in their dealership facilities and operations to meet Audi’s Dealer Operating Standards and provide customers with an improved shopping experience. To attribute any changes in consumer behavior or dealer operations simply to the level of Standards Bonuses provided and ignore the impact of these investments is a flawed analysis.

27. Price is just one of many factors that affect a dealership’s sales. Dealerships can, and frequently do, change their operations to respond to changes in the market. In addition to facilities and personnel which have been discussed, advertising, convenience, customer treatment, inventory, sales effort (quality of sales personnel and their compensation plans), and trade-in allowances are other examples of factors that affect sales and are within a dealers control. Further, a dealer can decide to shift its focus within a dealership, for example to used vehicle sales, service

¹¹ Roesner Report, paragraph 12.

¹² Roesner Report, paragraph 22.

or parts operations, or from one brand to another. A dealer like Len Stoler that has multiple locations which sell different brands can also decide to shift focus amongst these locations and brands. As shown on page A-11, Len Stoler had many franchises to manage, with its Audi franchise representing just 3% of all of its dealerships' new vehicle sales in 2015.¹³

Opinion 4: Used vehicle, service, and parts sales are not driven by new vehicle sales.

28. The Roesner Report states that “[a]long with lost new vehicle sales, other departments experience lost sales as well.”¹⁴ However, the Roesner Report fails to include any data or analysis to support this assumption. Sales of used vehicles, service, and parts are independent of new vehicle sales. In addition to varying sales based upon effort within a specific department and competitive changes in the marketplace, these departments can trend independently for other reasons. Used vehicle sales can trend with new vehicle sales at times, for example in response to changes in overall economic activity. However, used vehicle sales may also trend opposite new vehicle sales as consumers may view them to be alternatives to a new vehicle purchase. Service sales are generally more consistent year over year and are likely to be more dependent on the number of vehicles in operation in relative proximity to the dealership – many of which may have been sold by other dealerships.

29. As shown on pages A-12 through A-14, there is no direct relationship with the sale of Len Stoler's new vehicles and the volume of sales in each of the dealership's other departments. Each department's sales have shown to be independent of new vehicle sales, with no stable relationship, either in volume or direction.

¹³ 3.1% = 237 / 7663.

¹⁴ Roesner Report, paragraph 32.

30. The Roesner Report also claims that a loss in new vehicle sales by Len Stoler would translate to a loss in used vehicle sales due to the loss of trade-ins, which are a “significant source of used vehicles for a dealership.”¹⁵

31. Any loss in trade-in vehicles would not have had an effect on Len Stoler’s used vehicle sales because its used vehicle sales did not appear to be constrained by access to used vehicles. As shown on page A-15, Len Stoler’s Audi franchise wholesaled more of its used vehicles than other Audi dealerships in Maryland. These used vehicle wholesales are generally associated with no profit and represent an opportunity for a dealership to quickly sell a vehicle. These wholesale used vehicles could have otherwise been sold by the dealership as used retail vehicles.

32. While trade-in vehicles associated with the sale of new Audi vehicles are a source of used vehicles for Len Stoler, these vehicles represented just a small fraction of the overall used vehicles Len Stoler had access to sell. As shown on page A-16, even if every new vehicle sale made by Len Stoler was associated with a trade-in vehicle, these trade-ins represented a small fraction of the total used vehicles sold by Len Stoler’s dealerships.¹⁶ Considering any claimed lost new sales would be a fraction of Len Stoler’s total new vehicle sales, these claimed lost trade-in vehicles would have a negligible effect on Len Stoler’s used vehicle operation.

¹⁵ Roesner Report, paragraph 32.

¹⁶ Len Stoler’s financial statements appear to exclude Westbury Toyota, which reported selling 3,219 retail sales in 2015 (Source: Urban Science SSD).

MATERIALS CONSIDERED

In addition to my knowledge, experience, discussions with counsel, and discussions with Urban Science employees, among the documents reviewed and considered in conducting my analysis are:

1. Amended Complaint, dated March 22, 2016.
2. Defendant AOA's Answer and Affirmative Defenses to Plaintiff Len Stoler, Inc.'s Amended Complaint, dated May 20, 2016.
3. Expert Report of Joseph F. Roesner, dated July 2016 and associated foundational data.
4. Expert Report of Todd Berko, dated July 18, 2016 and associated foundational data.
5. Dealer Financial Statements
 - i. Audi of Hunt Valley (409A01).
 - ii. Audi of Hunt Valley (409A02).
 - iii. Audi of Bethesda.
 - iv. Criswell.
 - v. Frederick.
 - vi. FSK.
 - vii. Rockville.
 - viii. Silver Spring.
 - ix. Len Stoler.
6. Composite Financial Statements, Maryland Audi dealers excluding Len Stoler.
7. Capital Asset account values for Audi of Hunt Valley and Audi Silver Spring.
8. Standards Bonuses Payments

- i. Maryland Dealer Monthly Standards Payments Jan 2011 - May 2, 2016.xlsx.
 - ii. Maryland Dealer Quarterly Standards Payments 2008Q1-2010Q4.xlsx.
- 9. Audi Dealer Operating Standards
 - i. Version 8.5, October 2008.
 - ii. Version 8.7, November 2009.
 - iii. Version September 2011.
 - iv. Version October 2011.
 - v. Version September 2012.
 - vi. Version August 2013.
 - vii. Version August 2014.
 - viii. Version January 2016 (AoA0000369).
- 10. Audi Margin & Bonus Program Guide.
- 11. Audi Performance Bonus Program 2011 – 2013 (AoA0000143 & 445).
- 12. AoA Performance Bonus Program 2014 – 2016 (AoA0000154 & 166).
- 13. AoA Performance Bonus Program 2014 – 2015 (AoA0000241).
- 14. AoA Performance Bonus Program 2016 – 2020 (AoA0000253 & 274).
- 15. Len Stoler Audi Capacity Planning Form, dated August 23, 2013.
- 16. Letter from Treffen White – General Manager, Network Development to Dealer Principals, General Managers regarding Grandfather Policy + Cure Policy, dated September 21, 2011.
- 17. Audi Exclusive Facility Construction Agreement, between Audi and Mr. Leonard Stoler, dated January 13, 2015.

18. Letter from Cody Thacker, Senior Manager, Network Development to Mr. Barry Stoler, dated November 4, 2015.
19. NADA Compensation Study 2009.
20. NADA Compensation Study 2015.
21. Len Stoler website (www.lenstoler.com) accessed August 17, 2016.
22. Urban Science DealerSites data.
23. Audi dealer information and PAI structures.
24. Audi sales and competitive registration data.
25. Audi Sales & Registration Effectiveness Reports.
26. Pump-in and pump-out reports for Len Stoler, Audi of Hunt Valley, and Audi Silver Spring.
27. Urban Science Shared Sales by Dealer.
28. Geography data provided by TomTom.

OTHER

33. The opinions presented above are based upon the information and documents made available to me to date. I reserve the right to expand, modify, or update my findings and conclusions based upon my review of any further documents produced, disclosures made by any other expert, additional information or documentation provided, or on testimony and exhibits introduced at subsequent depositions or in the trial in this matter, or if any updates or corrections are appropriate.

34. This report has been prepared solely in connection with this matter. Urban Science and I disclaim any contractual or other responsibility to others based on the use of this report and,

accordingly, this information may not be relied upon by anyone other than in connection with the above-referenced matter.

35. For purposes of presenting my testimony at trial, I may use the attachments or exhibits in the form of schedules to summarize my findings and analysis. I may also use certain demonstrative aids and illustrations to assist in presenting technical concepts and analysis.

Executed this 17th day of August, 2016.

A handwritten signature in black ink, appearing to read "Jay Lytle", with a horizontal line underneath.

Jay R. Lytle
Analytical Services Manager

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